

**OHIO COUNTY
SCHOOL DISTRICT**

FINANCIAL STATEMENTS

June 30, 2003

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Ohio County School District
Hartford, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Ohio County School District** (the "District") as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 of the basic financial statements, the District has implemented a new financial reporting model, as required by the provisions of Governmental Accounting

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Standards Board Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—For State and Local Governments*, Statement No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—For State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 14, 2003 on our consideration of **Ohio County School District’s** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management’s discussion and analysis and budgetary comparison information on pages 5 through 17 and 63 through 64 are not a required part of the basic financial statements but are supplementary information required by *Governmental Accounting Standards*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Ohio County School District’s** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional information shown on pages

Kentucky State Committee for School District Audits
Members of the Board of Education
Ohio County School District

66 through 75 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Holland CPAs, PSC

Bowling Green, Kentucky
October 14, 2003

Required Supplementary
Information

Management's Discussion
And Analysis



**OHIO COUNTY PUBLIC SCHOOL DISTRICT
HARTFORD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2003**

As management of the Ohio County Public School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

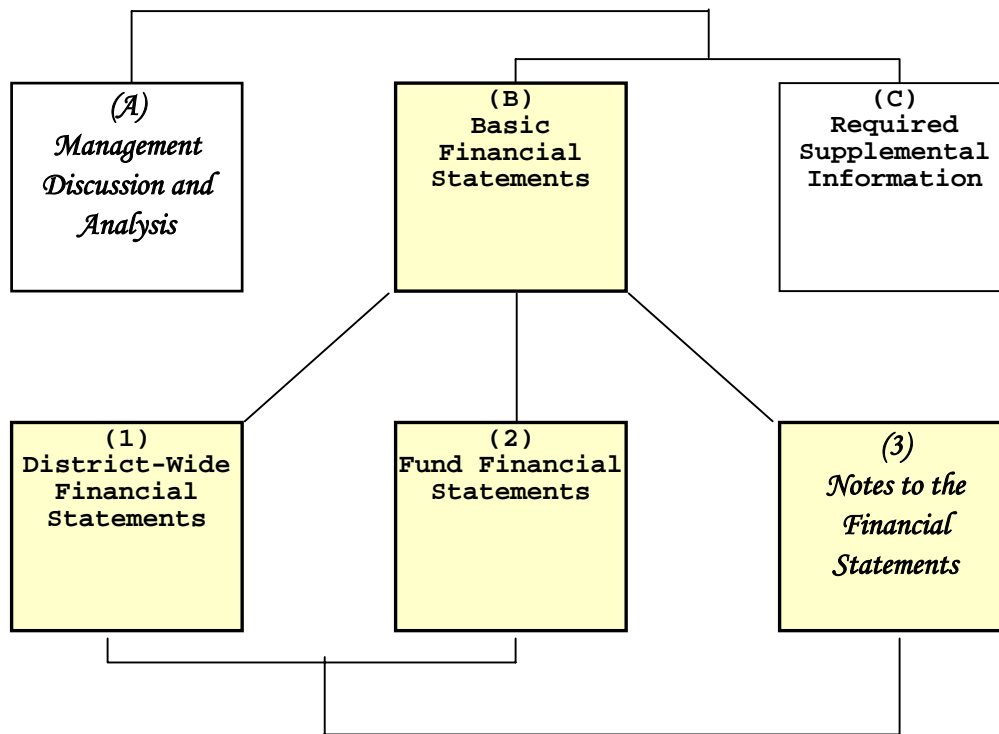
- The beginning General Fund fund balance for the District was \$5,642,001. The ending General Fund fund balance was \$7,169,402. The major reason for the increase of \$1,527,401 in the fund balance was the uncertain financial condition of the Commonwealth of Kentucky which could result in a negative adjustment to the SEEK allocation. SEEK is an acronym for Support Educational Excellence in Kentucky and is the state formula for funding schools. The SEEK adjustment was estimated to be between \$984,989 and \$1,166,294. The District made adjustments to the General Fund budget to help reduce the effect of a mid-year adjustment to the SEEK formula. The final adjustment was an increase in the SEEK allocation of \$103,016.
- The Annual Financial Report will show the General Fund with a large increase in state revenue due a change in reporting requirements mandated by the Kentucky Department of Education's (KDE) implementation of GASB regulations. The state's contribution to our employee's health insurance and retirement is included in the district's revenues and expenditure for the first time. This amount was \$4,357,828. The expenditure of this money is recorded within the appropriate functions.
- Bonds totaling \$5,490,000 were issued for the district to advance refund a portion of the September 1993, January 1994, and June 1996 bonds. As a result, \$570,000 of the September 1993 bond issue, \$1,740,000 of the January 1994 bond issue, and \$2,585,000 of the June 1996 bond issue is considered defeased and the liability has been removed from the government-wide statement of net assets. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt by \$473,015. The District completed the advance refunding to reduce its total debt service payments over the next twelve years by \$474,670 and to obtain an economic gain of \$401,793.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Ohio County Public School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis (this section), (B) the basic financial statements, and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the

financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report



The Government-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's major funds with all other non-major funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Reporting the District as a Whole

One of the most important questions asked about the District is "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. However, the District's goal is to provide services to our students, not to generate

profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky's SEEK funding formula and its adjustments, the District's property tax base, required educational programs and other factors.

In the Statement of Net Assets and the Statements of Activities, the District is divided into two distinct kinds of activities:

- **Government Activities** – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's food service is reported as business activities. These activities are funded thru fees, federal grants, and federal commodities.

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$27,323,309 as of June 30, 2003.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that is still outstanding (\$19,298,916). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Reporting the District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the District's major funds follows. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are assets that belong to others. The school activity funds and private purpose trust funds are reported as fiduciary funds. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Ohio County Public School District are the general fund and special revenue (grants).

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The District's school food service operation, school wide day care operation, school auditorium, high school day care operation, and the community education operation are within the proprietary business-type activities.

Fiduciary Funds – Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. The schools' activity funds (or agency funds) balances at year-end totaled \$188,339. The Districts' private purpose trust net assets at year-end totaled \$2,441,579.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets for the period ending June 30, 2003 *

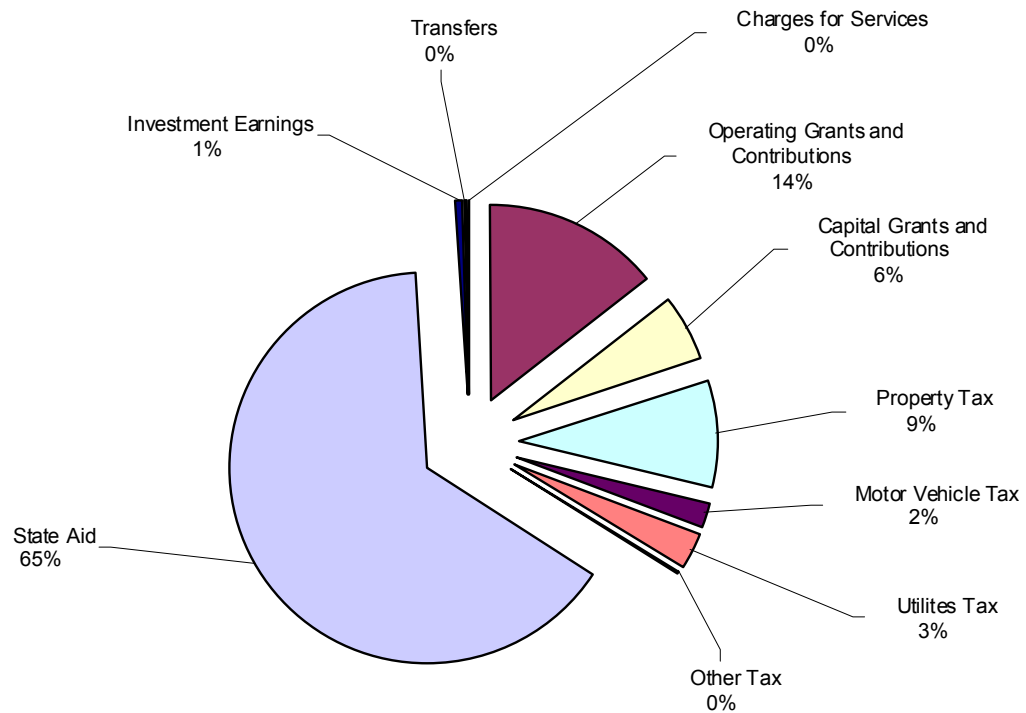
	Governmental Activities	Business-Type Activities	Total
Assets			
Current and Other Assets	\$ 9,313,669	\$ 495,348	\$ 9,809,017
Capital Assets	38,571,868	425,437	38,997,305
Total Assets	\$ 47,885,537	\$ 920,785	\$ 48,806,322
Liabilities			
Long Term Liabilities	\$ 19,388,408	\$ -	\$ 19,388,408
Other Liabilities (current)	2,093,135	1,470	2,094,605
Total Liabilities	\$ 21,481,543	\$ 1,470	\$ 21,483,013
Net Assets			
Investment in capital assets (net of debt)	\$ 18,873,479	\$ 425,437	\$ 19,298,916
Restricted	712,922	-	712,922
Unrestricted	6,817,593	493,878	7,311,471
Total Net Assets	\$ 26,403,994	\$ 919,315	\$ 27,323,309

* Note: In subsequent years, this chart will compare last year's Net Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Revenues for the period ending June 30, 2003*

Revenues	Governmental Activities	Business-Type Activities	Total
Program Revenues:			
Charges for Services	\$ 23,217	\$ 770,739	\$ 793,956
Operating Grants and Contributions	4,234,286	1,177,602	5,411,888
Capital Grants and Contributions	1,650,912	-	1,650,912
General Revenues:			
Property Tax	2,654,819		2,654,819
Motor Vehicle Tax	536,873		536,873
Utilities Tax	895,980		895,980
Other Tax	110,143		110,143
State Aid	19,157,298		19,157,298
Investment Earnings	182,720	8,544	191,264
Transfers	101,442	(101,442)	-
Total Revenues	\$ 29,547,690	\$ 1,855,443	\$ 31,403,133

Sources of Revenue



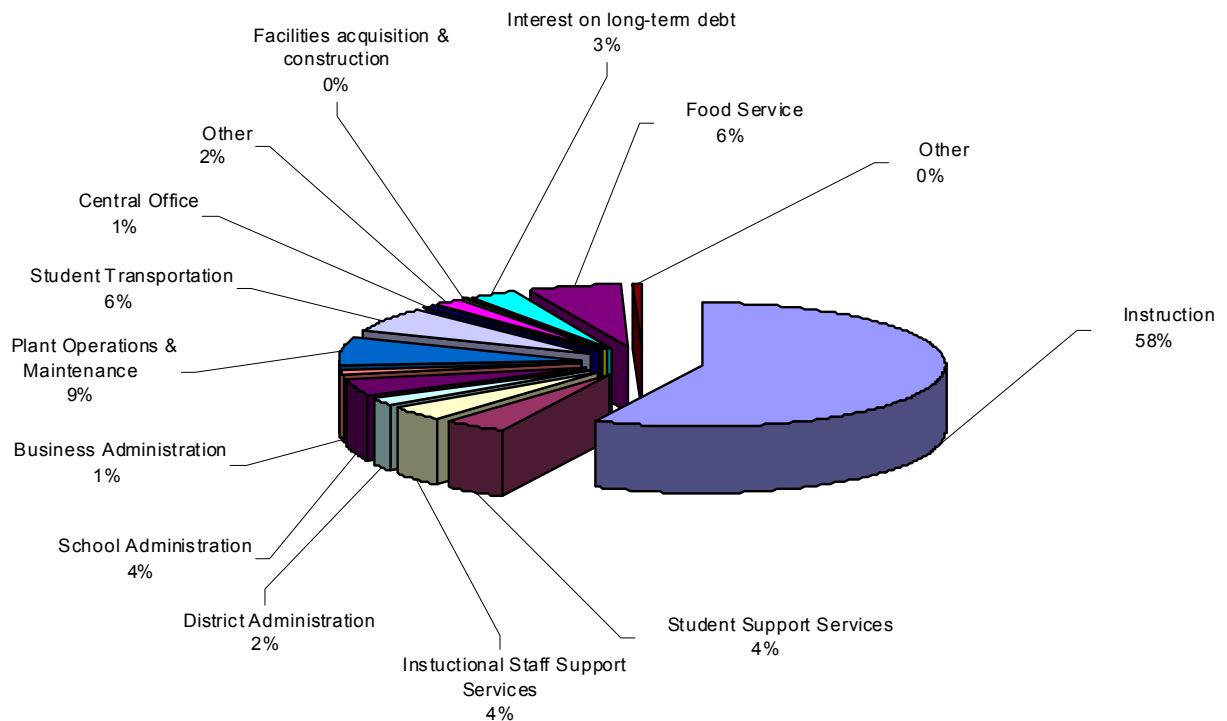
* Note: In subsequent years, this chart will compare last year's revenues to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Expenses for the period ending June 30, 2003*

Program Expenses		
Instruction	\$	17,246,462
Student Support Services		1,303,616
Instructional Staff Support Services		1,165,619
District Administration		621,752
School Administration		1,351,875
Business Administration		398,675
Plant Operations & Maintenance		2,316,361
Student Transportation		1,877,679
Central Office		297,925
Other		556,096
Facilities acquisition & construction		98,256
Interest on long-term debt		914,493
Food Service		1,879,418
Other		126,966
Total Expenses	\$	30,155,193

* Note: In subsequent years, this chart will compare last year's expenses to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Program Expenses

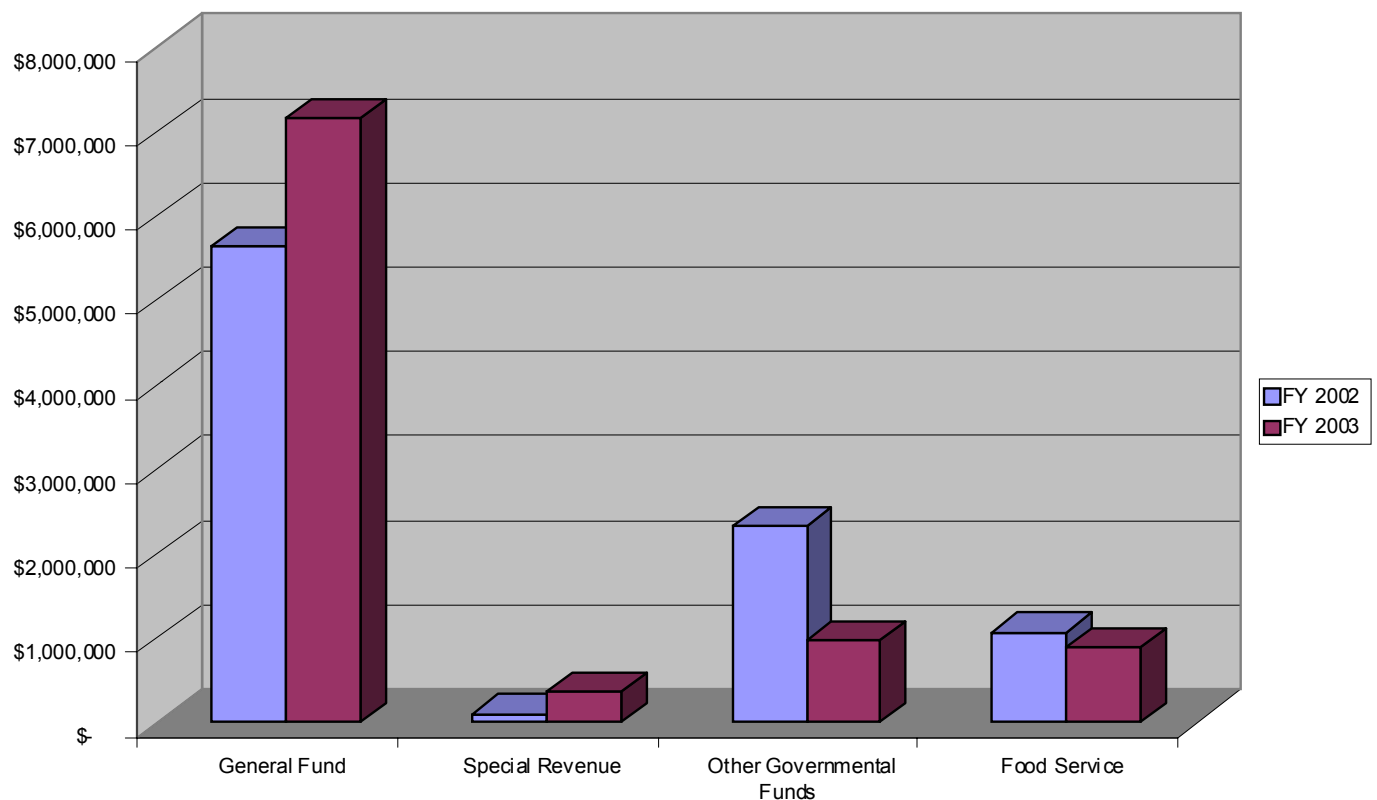


- The District's total revenues were \$31,403,133 and the total expenditures were \$30,155,193. Revenues exceeded expenditures by \$1,247,940.
- State revenues accounted for 65% and local taxes accounted for 14% of the revenue.
- Instruction was the major expense category and accounted for 58% of the total.
- Food service expenses exceeded revenues by \$176,855. During FY 2003, \$112,033 of indirect costs was transferred from the General Fund to the Food Service Fund.

Financial Analysis of the District Funds

Changes in End-of-Year Fund Balances	FY 2002	FY 2003	Amount of Change	Percent of Change
General Fund	\$ 5,642,001	\$ 7,169,402	\$ 1,527,401	27%
Special Revenue	\$ 103,902	\$ 359,945	\$ 256,043	246%
Other Governmental Funds	\$ 2,335,495	\$ 974,444	\$ (1,361,051)	-58%
Food Service	\$ 1,062,659	\$ 885,804	\$ (176,855)	-17%

Changes in End-of-Year Fund Balances



- The General Fund's fund balance showed a positive change of \$1,527,401. This was primarily the result of conservative fiscal management during a period of uncertain state funding.
- The Special Revenue fund had a positive change of \$256,043. The principal reason for the difference is that in FY 2003 the technology fund was transferred to the special revenue fund. The amount of the transfer was \$289,789.
- Within Other Governmental Funds, a major component of the \$1,361,051 decrease was a decrease of \$1,302,524 within the construction fund. This decrease was due to the completion within the current fiscal year of a nine classroom addition at Beaver Dam Elementary.
- The Food Service Fund's balance had a \$176,855 decrease. The transfer of indirect costs from the General Fund to Food Service Fund of \$112,033 contributed to part of the excess expenditures over appropriations.

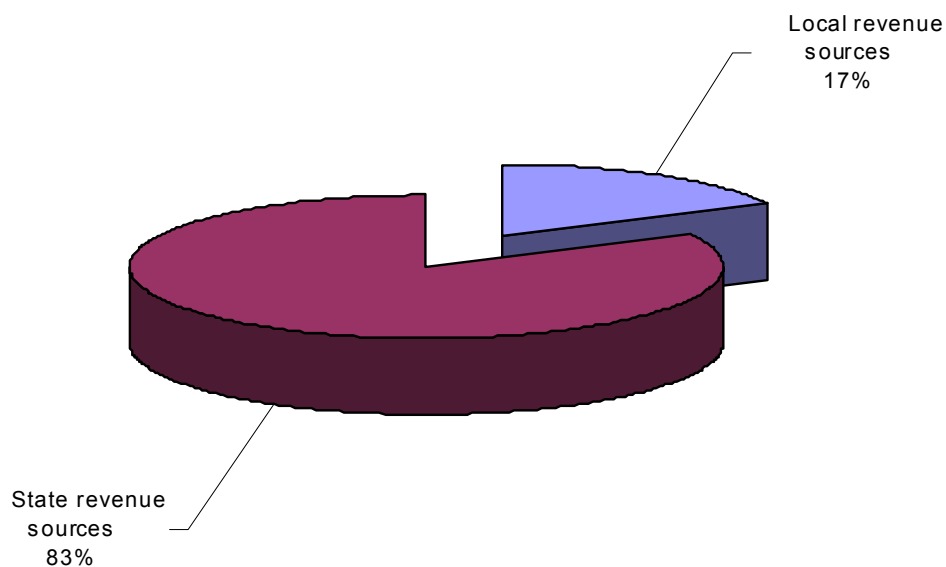
Comments on General Fund Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2003 was \$23,185,003. This is \$5,920,989 more than was budgeted in the final working budget. The primary reason for the difference is that GAAP requires our audit to include state contributions to our employee's retirement, health and life insurance. This is referred to as "On-Behalf" revenue. The District does not get these funds directly and it is not included in our budget. However, it must be in the District's audit. This "On-Behalf" contribution was \$4,299,177 for 2002-2003. The District budgeted for its local revenues (taxes, earned interest, and tuition) in a conservative manner. Thus, local revenues were slightly higher than budgeted (\$363,691).
- Expenditures were also greater than budgeted primarily because of the inclusion of the in-kind state benefits mentioned above. The \$4,299,177 "On-Behalf" money was allocated to be spent in all the different functions.
- General Fund budget compared to actual revenue varied from line item to line item with the ending actual fund balance being \$1,527,401 more than the prior year. The primary reason for this is the result of conservative fiscal management during a period of uncertain state funding.
- District administration shows a \$1,063,958 favorable variance. The reason is because this is where the district's contingency is budgeted. The contingency is not meant to be expended, but is to be used as the district's beginning balance for next year. The contingency budgeted was actually \$859,648.
- The Final Budget and the Original Budget differ primarily because the Original Budget is prepared by the end of February for the next school year and the state had not adopted their budget yet. Because of state budget concerns, the Original Budget had no salary increases. The District adopted to 2.7% pay raise in the Final Budget after the state adopted its budget.

The following tables present a summary of revenues and expenses of the General Fund for the fiscal year ended June 30, 2003.

Revenues		Amount
Local revenue sources		\$ 4,027,705
Property Tax	2,308,109	
Motor Vehicle Tax	489,721	
Utilities Tax	895,980	
Other	110,143	
Tuition and fees	23,217	
Investment earnings	167,873	
Other local revenue	32,662	
State revenue sources		19,157,298
Total Revenues		\$ 23,185,003

General Fund Revenue Sources

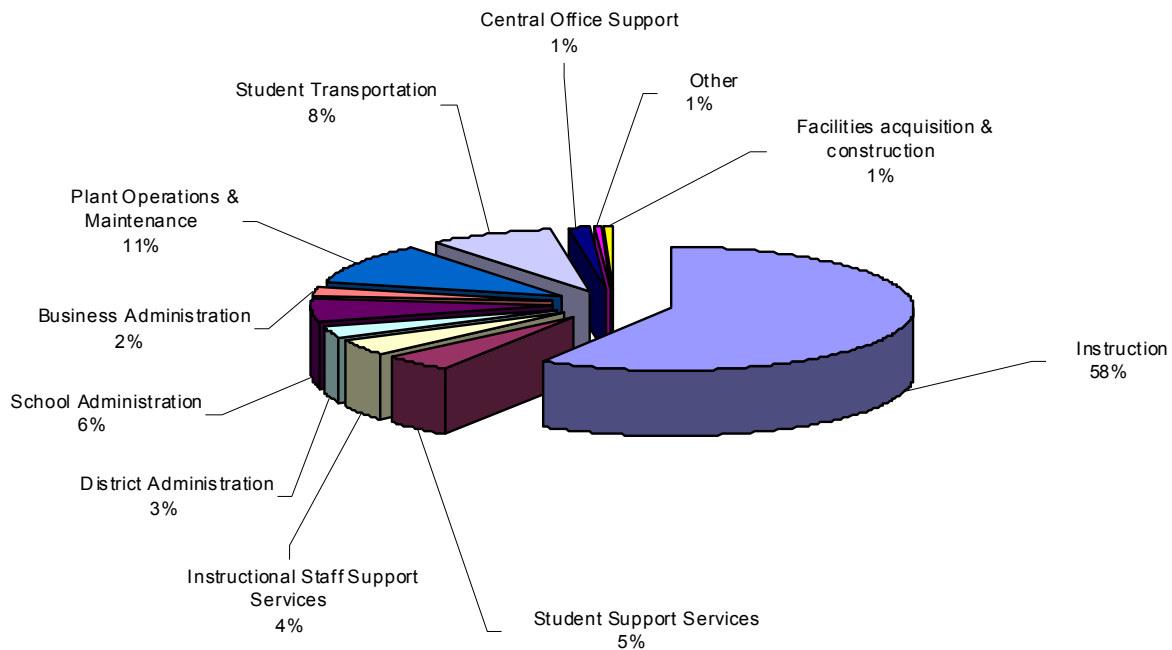


The majority of revenue was derived from state funding 83% with local revenue sources making up 17% of total revenue.

Expenditures

Instruction	\$	12,696,261
Student Support Services		992,873
Instructional Staff Support Services		895,534
District Administration		628,947
School Administration		1,319,511
Business Administration		398,675
Plant Operations & Maintenance		2,272,998
Student Transportation		1,782,062
Central Office Support		293,671
Other		134,209
Facilities acquisition & construction		118,471
Total Expenditures	\$	21,533,212

General Fund Expenditures



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2003, the district had invested \$38,997,305 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total of assets was \$61,674,987 with accumulated depreciation of \$22,677,682. The district completed a nine classroom addition to Beaver Dam Elementary and completed a girl's softball complex during the current fiscal year.

SUMMARY OF CAPITAL ASSETS *

Assets	Governmental Activities	Business-Type Activities	Totals
Land	\$ 624,685	\$ -	\$ 624,685
Buildings	35,299,707	-	35,299,707
Equipment and Furniture	2,647,476	425,437	3,072,913
Total Assets	\$ 38,571,868	\$ 425,437	\$ 38,997,305

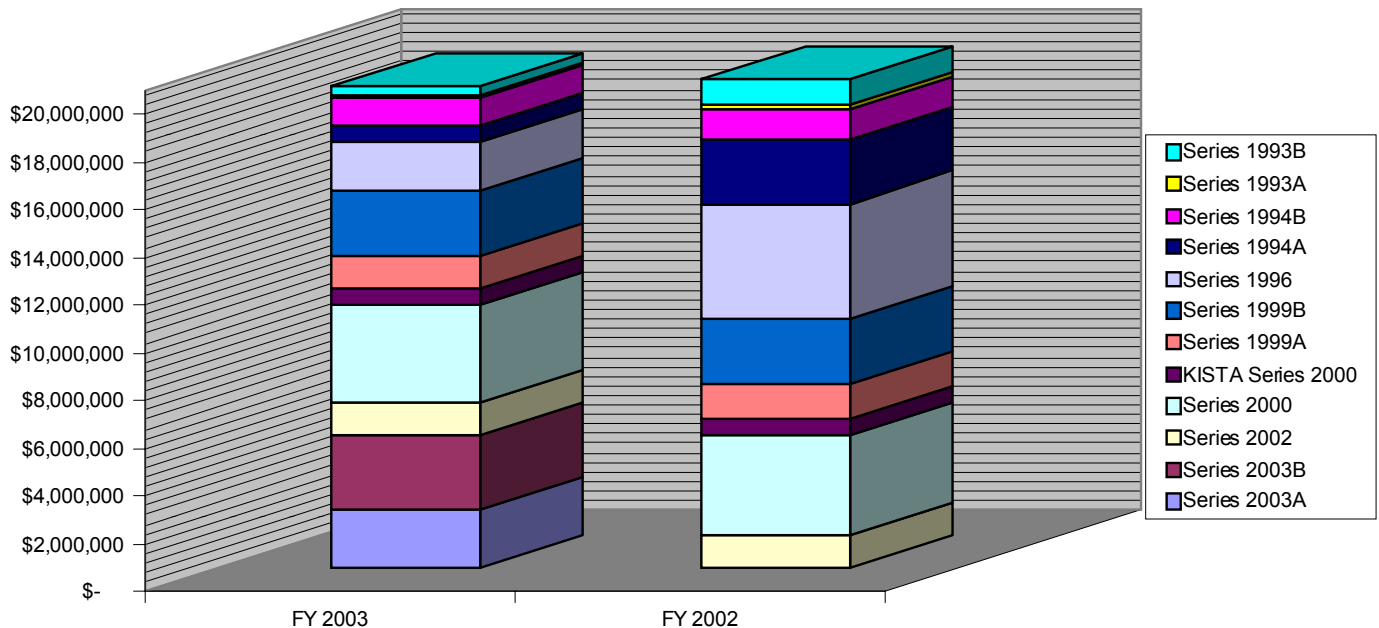
* Note: In subsequent years, this chart will compare last year's Capital Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Long-Term Debt

At year-end the district had \$20.1 million in general obligation bonds outstanding. The net decrease of general obligation bonds was \$259,000. This net decrease was due to the addition of advance refunding bond issues totaling \$5.49 million reduced by \$4.895 million of defeased bonds and current fiscal year principal payments totaling \$854,000. The advance refunding issue will reduce the total debt service payments over the next twelve years by \$474,670 and the District will obtain an economic gain of \$401,793.

General Obligation Bonds	FY 2003	FY 2002
Series 2003A	\$ 2,460,000	\$ -
Series 2003B	\$ 3,030,000	\$ -
Series 2002	\$ 1,370,000	\$ 1,385,000
Series 2000	\$ 4,150,000	\$ 4,170,000
KISTA Series 2000	\$ 647,000	\$ 691,000
Series 1999A	\$ 1,370,000	\$ 1,430,000
Series 1999B	\$ 2,695,000	\$ 2,720,000
Series 1996	\$ 2,045,000	\$ 4,830,000
Series 1994A	\$ 765,000	\$ 2,675,000
Series 1994B	\$ 1,110,000	\$ 1,300,000
Series 1993A	\$ 135,000	\$ 200,000
Series 1993B	\$ 365,000	\$ 1,000,000
Total	\$ 20,142,000	\$ 20,401,000

Outstanding Debt



BUDGETARY IMPLICATIONS

It is extremely important that the district continue to budget very conservatively. The District receives approximate 65% of its new general fund revenue each year through the state funding formula (SEEK). The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The District should always be prepared for such reductions in funding.

Approximately 17 % of the new general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth-seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year.

By law the budget must have a minimum 2 % contingency. The District adopted a budget with \$859,648 in contingency (4.2 %). The beginning fund balance for beginning the fiscal year is \$5,642,001. Significant Board action that impacts the finances include a 2.7 % pay raise for all employees, spending toward the Reading Recovery Program and general fund matching dollars for other grants. The District currently participates in forty-eight federal and state grants. The total budget for these grants is \$4,439,499. Many of these grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. At year-end, the District's General Fund was due \$375,869 from the special revenue fund. The District must continue to monitor the grants constantly and get reimbursements in a timely manner. The District must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges for Ohio County Public Schools are to continue to reach the academic accountability goal of 100% proficient by the year 2014, continue to maintain our modern facilities, and to maintain the average daily attendance count.

The District's challenge to reach the academic accountability goal established by the Commonwealth of Kentucky will be accomplished by several means. The primary goal is to maintain our competitive salary schedules to help attract quality leadership, teachers and support staff. The District also needs to continue to maintain our pupil/teacher ratio at levels below the levels recommended by the state. Maintaining several programs will also help the District overcome this challenge. These programs include, but are not limited to, Reading Recovery, full day kindergarten and advancement in the area of technology.

The second challenge mentioned above is to maintain our modern facilities. The District makes an annual major financial commitment in order to maintain our current facilities. Each year the District transfers \$400,000 of the General Fund revenues to a restricted construction account within the General Fund. This restricted account will help the District recovery from any unforeseen major facility repairs, help keep the current facilities in excellent condition and construct any required facilities which are not large enough to require a bond sale.

The third challenge mentioned above is preserving the average daily attendance count. The district receives funding through the SEEK formula based on this count. It is vital that our schools have high attendance percentages and that parents and students continue to choose Ohio County Schools when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing this district challenge.

Questions regarding this report should be directed to Mr. Brian L. Decker, Chief Financial Officer, located at 315 East Union Street, Hartford, KY 42347, by phone at 270.298.3249 extension # 249, or e-mail at bdecker@ohio.k12.ky.us.

Basic Financial Statements

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2003

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$ 5,858,404	\$ 352,128	\$ 6,210,532
Investments	2,053,645	0	2,053,645
Accounts receivable:			
Accounts	1,348,586	14,447	1,363,033
Inventory	0	128,773	128,773
Bond issuance costs	53,440	0	53,440
Less: accumulated amortization	(406)	0	(406)
Non-depreciated capital assets	624,685	0	624,685
Depreciable capital assets	60,067,016	983,286	61,050,302
Less: accumulated depreciation	(22,119,833)	(557,849)	(22,677,682)
TOTAL ASSETS	47,885,537	920,785	48,806,322
LIABILITIES			
Accounts payable	307,479	1,470	308,949
Deferred revenue	449,365	0	449,365
Accrued interest	111,874	0	111,874
Long-term obligations:			
Due within one year:			
Outstanding bonds	956,000	0	956,000
Compensated absences	239,270	0	239,270
Other	29,147	0	29,147
Due beyond one year:			
Outstanding bonds	18,652,880	0	18,652,880
Compensated absences	675,166	0	675,166
Other	60,362	0	60,362
TOTAL LIABILITIES	21,481,543	1,470	21,483,013

See accompanying notes to the financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS			
Invested in capital assets, net of related debt . . .	18,873,479	425,437	19,298,916
Restricted for:			
BG-1 projects	219,900	0	219,900
SFCC	473,390	0	473,390
Debt service	19,632	0	19,632
Unrestricted	6,817,593	493,878	7,311,471
TOTAL NET ASSETS	\$ 26,403,994	\$ 919,315	\$ 27,323,309

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003

		PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 17,246,462	\$ 23,217	\$ 3,193,091	\$ 29,018	\$ (14,001,136)	\$ 0	\$ (14,001,136)	
Support Services:								
Student	1,303,616	0	310,207	0	(993,409)	0	(993,409)	
Instructional staff	1,165,619	0	267,655	0	(897,964)	0	(897,964)	
District administration	621,752	0	0	0	(621,752)	0	(621,752)	
School administration	1,351,875	0	4,567	0	(1,347,308)	0	(1,347,308)	
Business	398,675	0	0	0	(398,675)	0	(398,675)	
Plant operations and maintenance	2,316,361	0	3,317	0	(2,313,044)	0	(2,313,044)	
Student transportation	1,877,679	0	86,464	0	(1,791,215)	0	(1,791,215)	
Central office	297,925	0	2,669	0	(295,256)	0	(295,256)	
Other	556,096	0	366,316	0	(189,780)	0	(189,780)	
Facilities acquisition and construction	98,256	0	0	946,059	847,803	0	847,803	
Interest on long-term debt	914,087	0	0	675,835	(238,252)	0	(238,252)	
Amortization expense	406	0	0	0	(406)	0	(406)	
TOTAL GOVERNMENTAL ACTIVITIES	28,148,809	23,217	4,234,286	1,650,912	(22,240,394)	0	(22,240,394)	

See accompanying notes to the financial statements.

BUSINESS-TYPE ACTIVITIES

Food services	1,879,418	628,450	1,177,602	0	0	(73,366)	(73,366)
Other	126,966	142,289	0	0	0	15,323	15,323
TOTAL BUSINESS-TYPE ACTIVITIES	<u>2,006,384</u>	<u>770,739</u>	<u>1,177,602</u>	<u>0</u>	<u>0</u>	<u>(58,043)</u>	<u>(58,043)</u>
TOTAL SCHOOL DISTRICT	<u>\$ 30,155,193</u>	<u>\$ 793,956</u>	<u>\$ 5,411,888</u>	<u>\$ 1,650,912</u>	<u>(22,240,394)</u>	<u>(58,043)</u>	<u>(22,298,437)</u>

GENERAL REVENUES

Taxes:

Property	2,654,819	0	2,654,819
Motor vehicle	536,873	0	536,873
Utilities	895,980	0	895,980
Unmined minerals	45,024	0	45,024
Other	65,119	0	65,119
State aid	19,157,298	0	19,157,298
Investment earnings	182,720	8,544	191,264
Transfers	101,442	(101,442)	0

**TOTAL GENERAL REVENUES
AND TRANSFERS**

CHANGE IN NET ASSETS	1,398,881	(150,941)	1,247,940
NET ASSETS – BEGINNING	25,005,113	1,070,256	26,075,369
NET ASSETS – ENDING	<u>\$ 26,403,994</u>	<u>\$ 919,315</u>	<u>\$ 27,323,309</u>

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS				
Cash	\$ 4,883,960	\$ 0	\$ 974,444	\$ 5,858,404
Investments	2,053,645	0	0	2,053,645
Accounts receivable:				
Accounts	158,071	1,190,515	0	1,348,586
Due from other funds	375,869	0	0	375,869
TOTAL ASSETS	<u>\$ 7,471,545</u>	<u>\$ 1,190,515</u>	<u>\$ 974,444</u>	<u>\$ 9,636,504</u>

See accompanying notes to the financial statements.

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 302,143	\$ 5,336	\$ 0	\$ 307,479
Due to other funds	0	375,869	0	375,869
Deferred revenue	0	449,365	0	449,365
TOTAL LIABILITIES	302,143	830,570	0	1,132,713

FUND BALANCES

Reserved for:

BG-1 projects	219,900	0	0	219,900
Construction	1,472,200	0	165,902	1,638,102
SFCC	0	0	473,390	473,390
Site based carryforward	54,418	0	0	54,418
Retirement benefits	500,000	0	0	500,000
Debt service	0	0	19,632	19,632
Unreserved	4,922,884	359,945	315,520	5,598,349
TOTAL FUND BALANCES	7,169,402	359,945	974,444	8,503,791

**TOTAL LIABILITIES AND
FUND BALANCES**

\$ 7,471,545	\$ 1,190,515	\$ 974,444	\$ 9,636,504
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OHIO COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2003

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 8,503,791

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds. The cost of the
assets is \$60,691,701, and the accumulated depreciation is \$22,119,833. 38,571,868

Bond issuance costs are shown as expenditures on the governmental fund
statements. However, they are reported as assets and amortized on the statement of net
assets. Net bond issuance costs at year-end amounted to 53,034

Long-term liabilities, including bonds payable, are not due and payable in the
current period and therefore are not reported as liabilities in the funds. Long-term
liabilities at year-end consist of:

Bonds payable	(19,608,880)
Other debt	(89,509)
Accrued interest of the bonds	(111,874)
Compensated absences	(914,436)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES \$ 26,403,994

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
From local sources:				
Taxes:				
Property	\$ 2,308,109	\$ 0	\$ 346,710	\$ 2,654,819
Motor vehicle	489,721	0	47,152	536,873
Utilities	895,980	0	0	895,980
Unmined minerals	45,024	0	0	45,024
Other	65,119	0	0	65,119
Tuition and fees	23,217	6,494	0	29,711
Earnings on investments	167,873	4,232	10,595	182,700
Other local revenue	32,662	90,639	0	123,301
Intergovernmental – state	19,157,298	1,768,258	1,621,894	22,547,450
Intergovernmental – federal	0	2,397,913	0	2,397,913
TOTAL REVENUES	23,185,003	4,267,536	2,026,351	29,478,890
EXPENDITURES				
Current:				
Instruction	12,696,261	3,407,536	0	16,103,797

See accompanying notes to the financial statements.

Support services:				
Student	992,873	310,207	0	1,303,080
Instructional staff	895,534	267,655	0	1,163,189
District administration	628,947	0	0	628,947
School administration	1,319,511	4,567	0	1,324,078
Business	398,675	0	0	398,675
Plant operations and maintenance	2,272,998	3,317	0	2,276,315
Student transportation	1,782,062	86,464	0	1,868,526
Central office	293,671	2,669	0	296,340
Other	134,209	366,316	54,940	555,465
Debt service:				
Principal	0	0	854,000	854,000
Interest	0	0	1,014,103	1,014,103
Facilities acquisition and construction	118,471	0	1,310,933	1,429,404
TOTAL EXPENDITURES	21,533,212	4,448,731	3,233,976	29,215,919
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,651,791	(181,195)	(1,207,625)	262,971
OTHER FINANCING SOURCES (USES)				
Bond proceeds	0	0	5,425,996	5,425,996
Payment to escrow agent for refunded bonds	0	0	(5,368,016)	(5,368,016)
Operating transfers	(124,390)	437,238	(211,406)	101,442
TOTAL OTHER FINANCING SOURCES (USES)	(124,390)	437,238	(153,426)	159,422
NET CHANGE IN FUND BALANCE	1,527,401	256,043	(1,361,051)	422,393
FUND BALANCE – BEGINNING	5,642,001	103,902	2,335,495	8,081,398
FUND BALANCE – ENDING	\$ 7,169,402	\$ 359,945	\$ 974,444	\$ 8,503,791

See accompanying notes to the financial statements.

**OHIO COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003**

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	\$	422,393
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Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,975,874) exceeds depreciation expense (\$1,738,493) in the period.		237,381
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Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The net difference between the proceeds from the sale of assets recorded on the fund statements and the actual loss recognized on the district-wide statements equaled this amount for the year.		(86,713)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		854,000
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Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.		(28,180)
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CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	\$	<u>1,398,881</u>
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See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
ASSETS			
CURRENT ASSETS			
Cash	\$ 330,939	\$ 21,189	\$ 352,128
Accounts receivable:			
Accounts	14,447	0	14,447
Inventory	128,773	0	128,773
TOTAL CURRENT ASSETS	<u>474,159</u>	<u>21,189</u>	<u>495,348</u>
NON-CURRENT ASSETS			
Fixed assets – net	413,062	12,375	425,437
TOTAL ASSETS	<u><u>\$ 887,221</u></u>	<u><u>\$ 33,564</u></u>	<u><u>\$ 920,785</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 1,417	\$ 53	\$ 1,470
TOTAL CURRENT LIABILITIES	<u>1,417</u>	<u>53</u>	<u>1,470</u>
NET ASSETS			
Invested in capital assets, net of related debt . . .	413,062	12,375	425,437
Unrestricted	472,742	21,136	493,878
TOTAL NET ASSETS	<u>885,804</u>	<u>33,511</u>	<u>919,315</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 887,221</u></u>	<u><u>\$ 33,564</u></u>	<u><u>\$ 920,785</u></u>

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 628,450	\$ 0	\$ 628,450
Tuition and fees	0	142,289	142,289
TOTAL OPERATING REVENUES	628,450	142,289	770,739
OPERATING EXPENSES			
Salaries and wages	801,867	0	801,867
Contract services	64,184	0	64,184
Materials and supplies	931,478	0	931,478
Other operating expenses	0	121,580	121,580
Depreciation expense	74,814	5,386	80,200
TOTAL OPERATING EXPENSES	1,872,343	126,966	1,999,309
OPERATING INCOME (LOSS)	(1,243,893)	15,323	(1,228,570)
NON-OPERATING REVENUES (EXPENSES)			
State operating grants	82,354	0	82,354
Federal operating grants	873,409	0	873,409
Donated commodities	221,839	0	221,839
Interest revenue	8,544	0	8,544
Loss on sale of assets	(7,075)	0	(7,075)
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,179,071	0	1,179,071
INCOME (LOSS) BEFORE TRANSFERS	(64,822)	15,323	(49,499)
TRANSFERS	(112,033)	10,591	(101,442)
CHANGE IN NET ASSETS	(176,855)	25,914	(150,941)

See accompanying notes to the financial statements.

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
TOTAL NET ASSETS – BEGINNING, AS ORIGINALLY STATED	1,100,788	(10,164)	1,090,624
PRIOR PERIOD ADJUSTMENT	(38,129)	17,761	(20,368)
TOTAL NET ASSETS – BEGINNING, AS RESTATED	1,062,659	7,597	1,070,256
TOTAL NET ASSETS – ENDING	<u>\$ 885,804</u>	<u>\$ 33,511</u>	<u>\$ 919,315</u>

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from user charges	\$ 673,255	\$ 142,289	\$ 815,544
Cash payments to employees for services	(801,867)	0	(801,867)
Cash payments for contract services	(64,184)	0	(64,184)
Cash payments to suppliers for goods and services	(782,789)	0	(782,789)
Cash payments in other operating expenses	0	(134,293)	(134,293)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(975,585)</u>	<u>7,996</u>	<u>(967,589)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating grants received	892,803	0	892,803
Operating subsidies and transfers to other funds	(112,033)	10,591	(101,442)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>780,770</u>	<u>10,591</u>	<u>791,361</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(33,389)	0	(33,389)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(33,389)</u>	<u>0</u>	<u>(33,389)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	8,544	0	8,544
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,544</u>	<u>0</u>	<u>8,544</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(219,660)	18,587	(201,073)
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	<u>550,599</u>	<u>2,602</u>	<u>553,201</u>
CASH AND CASH EQUIVALENTS – END OF THE YEAR	<u><u>\$ 330,939</u></u>	<u><u>\$ 21,189</u></u>	<u><u>\$ 352,128</u></u>

See accompanying notes to the financial statements.

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ (1,243,893)	\$ 15,323	\$ (1,228,570)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	74,814	5,386	80,200
Commodities used	221,839	0	221,839
Changes in assets and liabilities:			
Receivables	44,805	0	44,805
Inventories	(58,161)	0	(58,161)
Accounts payable	(14,989)	(290)	(15,279)
Due to other funds	0	(12,423)	(12,423)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (975,585)	\$ 7,996	\$ (967,589)

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS		
ASSETS		
Cash	\$ 0	\$ 314,158
Investments	2,441,578	0
Accounts receivable	36,742	3,336
TOTAL ASSETS	<u>\$ 2,478,320</u>	<u>\$ 317,494</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 36,741	\$ 10,362
Due to student groups	0	188,339
Due to employees — flex plan	0	118,793
TOTAL LIABILITIES	<u>36,741</u>	<u>317,494</u>
NET ASSETS		
Held in trust for scholarships	2,441,579	0
TOTAL NET ASSETS	<u>2,441,579</u>	<u>0</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,478,320</u>	<u>\$ 317,494</u>

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2003

	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS	
Earnings on investments	\$ 132,066
Net increase in the fair value of investments	6,592
TOTAL ADDITIONS	138,658
DEDUCTIONS	
Support services — school administration	132,066
CHANGE IN NET ASSETS	6,592
NET ASSETS – BEGINNING	2,434,987
NET ASSETS – ENDING	\$ 2,441,579

See accompanying notes to the financial statements.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

● **Reporting Entity**

The Ohio County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Ohio County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Ohio County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization is included in the accompanying financial statements:

Ohio County School District Finance Corporation — The Ohio County Board of Education resolved to authorize the establishment of the Ohio County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Ohio County Board of Education also comprise the Corporation's Board of Directors.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Basis of Presentation**

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

• **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky (FSPK) Fund* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost as required by Kentucky law.

• **Proprietary Fund Types**

Enterprise Fund

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

The *School Wide Day Care-Elementary Fund* is used to account for after school and summer day care services offered to the general public.

The *Community Education Fund* is used to account for educational services offered to the general public.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The *School Auditorium Fund* is used to account for the funds donated in order to construct a school auditorium once adequate funds are received. The general public will have access to the auditorium.

The *High School Day Care Fund* is used to account for the day care services offered only to the District's students.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

• **Fiduciary Fund Types** (includes agency and private purpose trust funds)

Fiduciary funds account for assets held by the District in a trustees capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Private Purpose Trust Funds

The *Private Purpose Trust Fund* is used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund and Capital Projects Funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Cash and Cash Equivalents**

The District considers demand deposits, money market funds and other highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

● **Investments**

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Estimated Lives
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than one year of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the Government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivables are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE**

In June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34 *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* (GASB 34). Statement No. 34 makes significant changes in financial reporting. Subsequent to the issuance of GASB 34, GASB issued the following standards to be implemented at the same time GASB 34 is adopted; Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The District has implemented these standards effective July 1, 2002.

Statement No. 34, among other changes, adds two new "Government-Wide" (District-Wide) financial statements as basic financial statements required for all governmental units. The Statement of Net assets and the Statement of Activities are the two new required statements. Both statements are prepared on the full accrual basis. The government-wide financial statements split the District's programs between business-type and governmental activities. Previously, in accordance with accounting standards for governmental units, the District used the modified accrual basis of accounting for certain funds. The modified accrual basis of accounting continues to be the appropriate basis of accounting for governmental activity fund financial statements.

In addition, all funds are reported as governmental, proprietary or fiduciary funds. The definitions for these types of activities are discussed in other portions of Note 1.

Finally, all non-fiduciary funds are further classified as major or non-major funds. In reporting financial condition and results of operations for governmental units, the new standard concentrates on major funds versus non-major funds.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE (Continued)**

The restatement of the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	General	Special Revenue	Other Governmental	Total
Fund equity, June 30, 2002	\$ 5,642,001	\$ 103,902	\$ 2,335,495	\$ 8,081,398
GASB 34 adjustments:				
Capital assets, net of depreciation				38,339,694
Long-term liabilities				(20,401,000)
Accrued interest payable				(215,790)
Accrued compensated absences				(755,260)
Other				(43,929)
Governmental Activities Net Assets, June 30, 2002				<u>\$ 25,005,113</u>

The District had a fixed asset inventory taken to comply with GASB 34. This inventory revealed a difference in the proprietary fixed assets that was previously recorded. Changes as a result of the GASB 34 implementation are as follows:

	School Food Service	Other Enterprise	Total
Fund equity, June 30, 2002	\$ 1,100,788	\$ (10,164)	\$ 1,090,624
Changes to fixed assets	(38,129)	17,761	(20,368)
Adjusted Fund Equity, June 30, 2002	<u>\$ 1,062,659</u>	<u>\$ 7,597</u>	<u>\$ 1,070,256</u>

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 3: CASH AND INVESTMENTS

● **Deposits**

At June 30, 2003, the carrying amounts of the District's deposits (cash and investments) were \$8,578,335 and the bank balances were \$10,729,673. The bank balance was covered by federal depository insurance or by collateral held by the banks in the District's name.

The carrying amounts are reflected in the financial statements in cash and investments (CD's) as follows:

Governmental funds	\$ 7,912,049
Proprietary funds	352,128
Fiduciary funds	<u>314,158</u>
	<u><u>\$ 8,578,335</u></u>

● **Investments**

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds.

The District's investments are categorized as either (1) insured or registered or for which the securities are held by the government or its agent in the District's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the District's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 3: CASH AND INVESTMENTS (Continued)

	Categories			Reported Amount
	1	2	3	
U.S. Obligations and Agencies	\$ 1,004,239	\$ 0	\$ 0	\$ 1,004,239
Kentucky Government Agencies				
General Obligation Bonds	1,224,097	0	0	1,224,097
Money Market	41,183			41,183
Certificates of Deposit	2,053,645			2,053,645
Commercial Paper	172,059	0	0	172,059
	<u>\$ 4,495,223</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,495,223</u>

The carrying amounts are reflected in the financial statements as follows:

Governmental funds	\$ 2,053,645
Fiduciary funds	2,441,578
	<u>\$ 4,495,223</u>

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2003 consist of the following:

Receivable Fund	Payable Fund	Amount
General	Special Revenue	<u>\$ 375,869</u>

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 400,873	\$ 0	\$ 0	\$ 400,873
Construction in progress	0	1,331,148	1,107,336	223,812
Total Nondepreciable Historical Cost	400,873	1,331,148	1,107,336	624,685
Capital assets that are depreciated:				
Land improvements	1,344,150	138,882	0	1,483,032
Buildings and improvements	48,664,799	1,117,367	156,954	49,625,212
Technology equipment	4,140,565	210,499	172,370	4,178,694
Vehicles	3,212,494	234,696	214,383	3,232,807
General	1,490,552	132,124	75,405	1,547,271
Total Depreciable Historical Cost	58,852,560	1,833,568	619,112	60,067,016
Less accumulated depreciation for:				
Land improvements	429,422	62,904	0	492,326
Buildings and improvements	14,388,096	1,005,762	77,647	15,316,211
Technology equipment	3,573,326	305,302	166,423	3,712,205
Vehicles	1,582,955	262,998	214,383	1,631,570
General	939,940	101,527	73,946	967,521
Total Accumulated Depreciation	20,913,739	1,738,493	532,399	22,119,833
Total Depreciable Historical Cost, Net	37,938,821	95,075	86,713	37,947,183
Governmental Activities, Capital Assets, Net	\$ 38,339,694	\$ 1,426,223	\$ 1,194,049	\$ 38,571,868

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
Technology equipment	\$ 61,183	\$ 2,990	\$ 0	\$ 64,173
Vehicles	10,500	0	0	10,500
General	897,048	30,399	18,834	908,613
Total Depreciable Historical Cost	968,731	33,389	18,834	983,286
Less accumulated depreciation for:				
Technology equipment	43,214	8,486	0	51,700
Vehicles	10,500	0	0	10,500
General	435,694	71,714	11,759	495,649
Total Accumulated Depreciation	489,408	80,200	11,759	557,849
Business-Type, Capital Assets, Net	\$ 479,323	\$ (46,811)	\$ 7,075	\$ 425,437

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 1,390,490
Student	536
Instructional staff	2,430
District administration	32,572
School administration	27,797
Facilities operations	40,046
Student transportation	243,037
Central office	1,585
Total Depreciation Expense	\$ 1,738,493

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
January 1, 1993	\$ 1,350,000	3.000%—6.000%
September 1, 1993	1,410,000	4.600%—5.000%
January 1, 1994	3,800,000	4.500%—5.000%
June 1, 1994	4,430,000	4.600%—5.875%
June 1, 1996	5,705,000	5.400%—5.625%
January 1, 1999A	1,595,000	3.600%—4.600%
June 1, 1999B	2,800,000	3.500%—4.500%
June 1, 2000	4,205,000	5.700%
June 1, 2002	1,385,000	2.000%—4.800%
June 1, 2003A	2,460,000	1.000%—3.000%
June 1, 2003B	3,030,000	2.000%—3.300%

On June 1, 2003 in two separate issues, the District issued \$2,460,000 and \$3,030,000 in general obligation bonds with interest rates ranging from 1.00% to 3.00% and 2.00% to 3.30%, respectively, to partially advance refund \$570,000 of outstanding September 1993 bonds with interest rates ranging from 4.600% to 5.000%, \$1,740,000 of outstanding January 1994 bonds with interest rates ranging from 4.500% to 5.000%, and \$2,585,000 of outstanding June 1996 bonds with interest rates ranging from 5.400% to 5.625%. The net proceeds of \$5,368,016 were used to purchase U.S. government securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for all partial future debt service payments. As a result, \$570,000 of the September 1993 bond issue, \$1,740,000 of the January 1994 bond issue, and \$2,585,000 of the June 1996 bond issue is considered defeased and the liability has been removed from the government-wide statement of net assets.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS
(Continued)

The advance refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt by \$473,015. The difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2015 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next twelve years by \$474,670 and to obtain an economic gain of \$401,793.

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Ohio County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS
(Continued)

Year	Ohio County School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2003—2004	\$ 659,478	\$ 521,698	\$ 190,396	\$ 434,302	\$ 1,805,874
2004—2005	633,439	548,495	216,334	459,505	1,857,773
2005—2006	605,837	576,233	196,073	479,767	1,857,910
2006—2007	577,177	601,893	174,733	501,107	1,854,910
2007—2008	546,476	631,158	151,996	523,842	1,853,472
2008—2009	513,349	668,151	135,990	539,849	1,857,339
2009—2010	481,348	700,471	120,309	555,529	1,857,657
2010—2011	447,580	731,167	103,007	572,833	1,854,587
2011—2012	411,865	770,288	84,127	591,712	1,857,992
2012—2013	382,363	798,437	64,277	611,563	1,856,640
2013—2014	350,610	830,596	42,792	578,404	1,802,402
2014—2015	318,450	793,029	22,810	96,971	1,231,260
2015—2016	291,401	813,809	18,581	101,191	1,224,982
2016—2017	263,054	874,564	14,066	95,436	1,247,120
2017—2018	213,622	925,984	9,676	99,016	1,248,298
2018—2019	161,336	978,669	5,121	111,331	1,256,457
2019—2020	106,078	1,035,000	0	0	1,141,078
2020—2021	47,520	485,000	0	0	532,520
2021—2022	24,240	505,000	0	0	529,240
	<u>\$ 7,035,223</u>	<u>\$ 13,789,642</u>	<u>\$ 1,550,288</u>	<u>\$ 6,352,358</u>	<u>\$ 28,727,511</u>

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS
(Continued)

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Balance July 1, 2002	Increase	Decrease	Balance June 30, 2003	Amounts Due Within One Year
Government activities:					
Bonds and notes payable:					
General obligation debt . .	\$ 20,401,000	\$ 5,490,000	\$ (5,749,000)	\$ 20,142,000	\$ 956,000
Less deferred issuance discounts and premiums	0	(64,005)	482	(63,523)	0
Less deferred amount on refundings	0	(473,015)	3,418	(469,597)	0
Total Bonds and Notes Payable	20,401,000	4,952,980	(5,745,100)	19,608,880	956,000
Other liabilities:					
Other	43,929	81,509	(35,929)	89,509	29,147
Compensated absences	755,260	172,201	(13,025)	914,436	239,270
Total Other Liabilities	799,189	253,710	(48,954)	1,003,945	268,417
Total Long-Term Liabilities	\$ 21,200,189	\$ 5,206,690	\$ (5,794,054)	\$ 20,612,825	\$ 1,224,417

NOTE 7: PENSION PLANS

Plan Descriptions. The Ohio County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 7: PENSION PLANS (Continued)

adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Funding Policy. KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 6.34% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2003, 2002 and 2001 were \$265,858, \$274,607 and \$287,600, respectively, equal to the required contributions for each year.

The amount recognized for revenues and expenditures/expenses for on-behalf payments relating to fringe benefits for the year ended June 30, 2003 was \$4,299,177 for governmental funds and \$58,650 for proprietary funds.

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 8: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 9: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 10: RISK MANAGEMENT (Continued)

pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11: EXCESS EXPENDITURES OVER APPROPRIATIONS

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

Fund	Amount
Technology	\$ 287,813
Construction	1,302,524
School Food Service	176,855

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 12: FUND TRANSFERS

Fund transfers for the year ended June 30, 2003 consist of the following:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Community Education	Operating	\$ 4,880
Operating	General	Debt Service	Debt Service	78,383
Operating	General	Special Revenue	Matching	147,449
Operating	General	High School Daycare	Operating	5,711
Operating	FSPK	Debt Service	Debt Service	763,145
Operating	Technology	Special Revenue	Equity	289,789
Operating	Capital Outlay	Debt Service	Debt Service	359,710
Operating	Food Service	General Fund	Indirect Costs	112,033

Required Supplemental
Information

OHIO COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2003

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources	\$ 3,661,000	\$ 3,664,014	\$ 4,027,705	\$ 363,691
State programs	14,803,000	13,600,000	19,157,298	5,557,298
TOTAL REVENUES	18,464,000	17,264,014	23,185,003	5,920,989
EXPENDITURES				
Current:				
Instruction	10,977,586	10,304,505	12,696,261	(2,391,756)
Support services:				
Student	841,431	805,411	992,873	(187,462)
Instructional staff	849,952	831,963	895,534	(63,571)
District administration	1,795,613	1,692,905	628,947	1,063,958
School administration	1,226,309	1,188,745	1,319,511	(130,766)
Business	421,110	416,111	398,675	17,436
Plant operations and maintenance	2,737,545	2,682,099	2,272,998	409,101
Student transportation	1,822,839	1,655,127	1,782,062	(126,935)
Central office	280,728	292,729	293,671	(942)
Other	123,267	32,241	134,209	(101,968)
Debt service	0	335,000	0	335,000
Capital outlay	720,901	416,117	118,471	297,646
TOTAL EXPENDITURES	21,797,281	20,652,953	21,533,212	(880,259)

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,333,281)</u>	<u>(3,388,939)</u>	<u>1,651,791</u>	<u>5,040,730</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers	<u>(166,719)</u>	<u>(195,495)</u>	<u>(124,390)</u>	<u>71,105</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(166,719)</u>	<u>(195,495)</u>	<u>(124,390)</u>	<u>71,105</u>
NET CHANGE IN FUND BALANCE	<u>(3,500,000)</u>	<u>(3,584,434)</u>	<u>1,527,401</u>	<u>5,111,835</u>
FUND BALANCES – BEGINNING	<u>5,642,001</u>	<u>5,642,001</u>	<u>5,642,001</u>	<u>0</u>
FUND BALANCES – ENDING	<u>\$ 2,142,001</u>	<u>\$ 2,057,567</u>	<u>\$ 7,169,402</u>	<u>\$ 5,111,835</u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:

 Actual amounts (budgetary basis) \$ 18,885,826

Differences — budget to GAAP:

 On-behalf payments recorded under GAAP basis not included in budget amounts 4,299,177

**Total Revenues as Reported on Statement of Revenues, Expenditures and Changes
in Fund Balances — Governmental Funds**

\$ 23,185,003

Outflows/expenditures:

 Actual amounts (budgetary basis) \$ 17,234,035

Differences — budget to GAAP:

 On-behalf payments recorded under GAAP basis not included in budget amounts 4,299,177

**Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes
in Fund Balances — Governmental Funds**

\$ 21,533,212

Supplemental Information

OHIO COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2003

	SEEK FUND	FSPK FUND	TECHNOLOGY FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash	\$ 0	\$ 788,910	\$ 0	\$ 165,902	\$ 19,632	\$ 974,444
TOTAL ASSETS	\$ 0	\$ 788,910	\$ 0	\$ 165,902	\$ 19,632	\$ 974,444
LIABILITIES AND FUND BALANCES						
LIABILITIES	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL LIABILITIES	0	0	0	0	0	0
FUND BALANCES						
Reserved for:						
Construction	0	0	0	165,902	0	165,902
SFCC	0	473,390	0	0	0	473,390
Debt service	0	0	0	0	19,632	19,632
Unreserved	0	315,520	0	0	0	315,520
TOTAL FUND BALANCES	0	788,910	0	165,902	19,632	974,444
TOTAL LIABILITIES AND FUND BALANCES	\$ 0	\$ 788,910	\$ 0	\$ 165,902	\$ 19,632	\$ 974,444

OHIO COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	SEEK FUND	FSPK FUND	TECHNOLOGY FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES						
From local sources:						
Taxes:						
Property	\$ 0	\$ 346,710	\$ 0	\$ 0	\$ 0	\$ 346,710
Motor vehicle	0	47,152	0	0	0	47,152
Earnings on investments	0	0	1,976	8,409	210	10,595
Intergovernmental — state	359,710	586,349	0	0	675,835	1,621,894
TOTAL REVENUES	359,710	980,211	1,976	8,409	676,045	2,026,351
EXPENDITURES						
Current:						
Other	0	0	0	0	54,940	54,940
Debt service:						
Principal	0	0	0	0	854,000	854,000
Interest	0	0	0	0	1,014,103	1,014,103
Facilities acquisition and construction	0	0	0	1,310,933	0	1,310,933
TOTAL EXPENDITURES	0	0	0	1,310,933	1,923,043	3,233,976
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	359,710	980,211	1,976	(1,302,524)	(1,246,998)	(1,207,625)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	0	0	0	0	5,425,996	5,425,996
Payment to escrow agent for refunded bonds	0	0	0	0	(5,368,016)	(5,368,016)
Operating transfers	(359,710)	(763,145)	(289,789)	0	1,201,238	(211,406)
TOTAL OTHER FINANCING SOURCES (USES)	(359,710)	(763,145)	(289,789)	0	1,259,218	(153,426)
NET CHANGE IN FUND BALANCE	0	217,066	(287,813)	(1,302,524)	12,220	(1,361,051)
FUND BALANCE, BEGINNING	0	571,844	287,813	1,468,426	7,412	2,335,495
FUND BALANCES, ENDING	\$ 0	\$ 788,910	\$ 0	\$ 165,902	\$ 19,632	\$ 974,444

OHIO COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
June 30, 2003

	SCHOOL WIDE DAY CARE ELEMENTARY	HIGH SCHOOL DAY CARE	COMMUNITY EDUCATION	SCHOOL AUDITORIUM	TOTAL OTHER ENTERPRISE FUNDS
ASSETS					
CURRENT ASSETS					
Cash	\$ 8,555	\$ 9,132	\$ 0	\$ 3,502	\$ 21,189
TOTAL CURRENT ASSETS	8,555	9,132	0	3,502	21,189
NONCURRENT ASSETS					
Fixed assets — net	0	12,375	0	0	12,375
TOTAL ASSETS	\$ 8,555	\$ 21,507	\$ 0	\$ 3,502	\$ 33,564
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ 53	\$ 0	\$ 0	\$ 0	\$ 53
TOTAL CURRENT LIABILITIES	53	0	0	0	53
NET ASSETS					
Invested in capital assets, net of related debt	0	12,375	0	0	12,375
Unrestricted	8,502	9,132	0	3,502	21,136
TOTAL NET ASSETS	8,502	21,507	0	3,502	33,511
TOTAL LIABILITIES AND NET ASSETS	\$ 8,555	\$ 21,507	\$ 0	\$ 3,502	\$ 33,564

OHIO COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	SCHOOL WIDE DAY CARE ELEMENTARY	HIGH SCHOOL DAY CARE	COMMUNITY EDUCATION	SCHOOL AUDITORIUM	TOTAL OTHER ENTERPRISE FUNDS
OPERATING REVENUES					
Tuition and fees	\$ 95,916	\$ 41,632	\$ 3,841	\$ 900	\$ 142,289
TOTAL OPERATING REVENUES	<u>95,916</u>	<u>41,632</u>	<u>3,841</u>	<u>900</u>	<u>142,289</u>
OPERATING EXPENSES					
Other operating expenses	87,414	30,223	3,943	0	121,580
Depreciation expense	<u>0</u>	<u>5,386</u>	<u>0</u>	<u>0</u>	<u>5,386</u>
TOTAL OPERATING EXPENSES	<u>87,414</u>	<u>35,609</u>	<u>3,943</u>	<u>0</u>	<u>126,966</u>
OPERATING INCOME (LOSS)	8,502	6,023	(102)	900	15,323
NON-OPERATING REVENUES (EXPENSES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
INCOME (LOSS) BEFORE TRANSFERS	8,502	6,023	(102)	900	15,323
TRANSFERS	<u>5,711</u>	<u>0</u>	<u>4,880</u>	<u>0</u>	<u>10,591</u>
CHANGE IN NET ASSETS	<u>14,213</u>	<u>6,023</u>	<u>4,778</u>	<u>900</u>	<u>25,914</u>
TOTAL NET ASSETS, BEGINNING, AS ORIGINALLY STATED	(5,711)	(2,277)	(4,778)	2,602	(10,164)
PRIOR PERIOD ADJUSTMENT	<u>0</u>	<u>17,761</u>	<u>0</u>	<u>0</u>	<u>17,761</u>
TOTAL NET ASSETS, BEGINNING, AS RESTATED	<u>(5,711)</u>	<u>15,484</u>	<u>(4,778)</u>	<u>2,602</u>	<u>7,597</u>
TOTAL NET ASSETS, ENDING	<u>\$ 8,502</u>	<u>\$ 21,507</u>	<u>\$ 0</u>	<u>\$ 3,502</u>	<u>\$ 33,511</u>

OHIO COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF ASSETS AND LIABILITIES
ALL SCHOOL ACTIVITY FUNDS
ALL AGENCY FUNDS
June 30, 2003

	CASH JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
Ohio County High School	\$ 74,912	\$ 3,336	\$ 3,080	\$ 75,168
Ohio County Middle School	25,480	0	0	25,480
Horse Branch Elementary	14,921	0	0	14,921
Southern Elementary	13,804	0	0	13,804
Wayland Elementary	31,994	0	1,402	30,592
Western Elementary	9,852	0	0	9,852
Beaver Dam Elementary	10,245	0	0	10,245
Fordsville Elementary	8,277	0	0	8,277
TOTAL LIABILITIES	\$ 189,485	\$ 3,336	\$ 4,482	\$ 188,339

OHIO COUNTY SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
OHIO COUNTY HIGH SCHOOL
June 30, 2003

	CASH JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
District Basketball Tournament	\$ 56	\$ 0	\$ 0	\$ 56
Athletics	400	0	0	400
Baseball Field	13	0	0	13
Girls Booster Account	237	0	0	237
Boys Booster Account	1,435	0	0	1,435
Soccer Boosters	498	0	0	498
Softball Boosters	1,348	0	0	1,348
Tennis Boosters	219	0	0	219
FB Quarterback Club	17,341	600	2,093	15,848
Volleyball Boosters	380	0	0	380
Track Boosters	589	0	0	589
Wrestling Team	792	0	0	792
Art Club	168	0	0	168
Beta Club	153	0	0	153
Band Boosters	2,762	2,026	0	4,788
Drama Club	1,309	0	0	1,309
FCF	695	0	0	695
French Club	877	0	0	877
FFA	8,031	0	0	8,031
FCCLA	417	0	0	417
German Club	998	0	0	998
NHS	360	0	0	360
Pep Club	4	0	0	4
Spanish Club	88	0	0	88
Student Council	1,583	165	0	1,748
STLP	149	0	0	149
Team Esteem	627	0	0	627
Student Concessions	1,147	0	0	1,147
Teacher Concessions	1,738	186	833	1,091
Family Consumer Science	167	0	0	167
Horticulture	2,780	0	0	2,780
Eagle Excellence	118	0	0	118
Academic Team	12	0	0	12
Screaming Eagles	3	0	0	3

	CASH JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
Vo Ag Department	167	0	0	167
Hot Air Co.	38	0	0	38
Phyllis Vincent	2,625	0	0	2,625
General Fund	19,615	0	155	19,460
Annual	2,006	360	0	2,366
Cheerleading Fund	2,065	0	0	2,065
Flower Fund	115	0	0	115
Library	283	0	0	283
FEA	118	0	0	118
Chorus	26	0	0	26
Prom	1	0	0	1
Textbook Rental	12	0	0	12
Frankfort Trip	313	0	0	313
Postermaker	36	0	0	36
	<u>\$ 74,914</u>	<u>\$ 3,337</u>	<u>\$ 3,081</u>	<u>\$ 75,170</u>

OHIO COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	MUNIS NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program	10.553	—	\$ 223,802
National School Lunch Program	10.555	—	649,607
Passed-Through State Department of Agriculture:			
Food Distribution Program	10.555	—	221,839
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,095,248
U.S. DEPARTMENT OF EDUCATION			
Passed-Through State Department of Education:			
Title I — 2002	84.010	3102	61,361
Title I — 2003	84.010	3103	902,859
Title I — Migrant Education — 2002	84.011	3112	11,304
Title I — Migrant Education — 2003	84.011	3113	51,691
Title I — Neglected & Delinquent Children — 2003	84.013	3133	6,282
Title VI — Innovative Education — 2003	84.298A	3313B	4,139
Title V — Innovative Strategies — 2003	84.298	3343	146,362
Title II — Part A, Tch. & Prin. Trng. — 2003	84.367A	4023	120,395
Title II — Dwight D. Eisenhower PD — 2002	84.281A	4042	11,475
Title II — Part D, Educational Tech. — 2003	84.318X	4253	4,330
IDEA-B Special Education — 2002	84.027	3372	360,637
IDEA-B Special Education — 2003	84.027	3373	264,341
IDEA-B — Preschool — 2002	84.173	3432	56,723
IDEA-B — Preschool — 2003	84.173	3433	38,950
Title III — LEP/Immigrant Allocation — 2003	84.365A	3453	4,817
Title VI — Part B Rural & Low Income — 2003	84.358B	3503	94,453
Title VI — Class Size Reduction Program — 2002	84.340	3882	12,789
Title IV — Safe & Drug Free Schools— 2002	84.186A	4062	8,347
Title IV — Safe & Drug Free Schools— 2003	84.186A	4063	29,330
Technology Literacy Challenge Fund	84.318	4253	5,073
Vocational Education — Carryforward — 2002	84.048	3482	753
Vocational Education — Basic — 2003	84.048	3483	25,843
Drug Free Community Support	16.279	5003	35,535
Abstinence Education	93.235	5033	45,455
TOTAL U.S. DEPARTMENT OF EDUCATION			2,303,244

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	MUNIS NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF LABOR			
Passed-Through State Workforce Cabinet:			
WIA — Drop-Out Prevention Program — 2002	17.255	5882	5,418
WIA — Drop-Out Prevention Program — 2003	17.255	5883	84,792
TOTAL U.S. DEPARTMENT OF LABOR			90,210
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed-Through State Workforce Cabinet:			
Service Learning Grant — 2003	94.004	6753	4,459
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			4,459
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,493,161

OHIO COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Ohio County School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

OHIO COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2003

None.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Ohio County School District
Hartford, Kentucky

We have audited the financial statements of ***Ohio County School District*** (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated October 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract—State Audit Requirements*.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated October 14, 2003.

This report is intended solely for the information and use of the members of the **Ohio County Board of Education**, Kentucky State Committee for School Districts, management of the **Ohio County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
October 14, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Ohio County School District
Hartford, Kentucky

● **Compliance**

We have audited the compliance of **Ohio County School District** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards and

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OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

● **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits
Members of the Board of Education
Ohio County School District

This report is intended solely for the information and use of the members of the **Ohio County Board of Education**, Kentucky State Committee for School Districts, management of the **Ohio County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
October 14, 2003

OHIO COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2003

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

OHIO COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2003

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555	Child Nutrition Cluster
84.010	Title I
84.027	IDEA B — Basic
84.173	IDEA B — Preschool

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

SECTION II — FINANCIAL STATEMENT FINDINGS

Summary

None.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Summary

None.



Kentucky State Committee for School District Audits
Members of the Board of Education
Ohio County School District
Hartford, Kentucky

In planning and performing our audit of the financial statements of ***Ohio County School District*** (the "District") for the year ended June 30, 2003, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated October 14, 2003 contains our report on the District's internal control. This letter does not affect our report dated October 14, 2003 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Holland CPAs, PSC

Bowling Green, Kentucky
October 14, 2003

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OHIO COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2003

● **Horse Branch Elementary**

- U During our test of receipts, we noted a deposit that was not made timely. To improve controls over assets, receipts should be deposited daily.

● **Southern Elementary**

- U During our test of receipts, we noted the deposit slips or receipts were not signed by two different people. To ensure proper segregation of duties, the deposit or receipt should be counted and signed by two different individuals.
- U During our test of disbursements, we noted some disbursements did not include supporting documentation. To ensure that the proper amount is paid, invoices, packing slips, etc. should support all disbursements.
- U During our test of the disbursement cycle, we noted some items received did not have documentation of receipt. We recommend that all items received have some documentation of receipt to ensure all items requested were received.
- U During our test of the disbursement cycle, we noted some purchase orders were not signed by the person requesting the merchandise. We recommend the person requesting merchandise always sign the purchase order to comply with the requirements of activity funds.

● **Wayland Elementary**

- U During our test of receipts, we noted the deposit slips or receipts were not signed by two different people. To ensure proper segregation of duties, the deposit should be counted and signed by two different individuals.
- U During our test of the disbursement cycle, we noted some items received did not have documentation of receipt. We recommend that all items received have some documentation of receipt to ensure all items requested were received.

OHIO COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

● **Western Elementary**

- U Per a discussion with the treasurer, it came to our attention that she opened the monthly bank statements. To improve controls over cash, the treasurer should not open the bank statements as well as perform accounting functions. We recommend the principal open the bank statement each month and subsequently review it for proprietary purposes.

● **Ohio County High School**

- U During our review of the Annual Financial Report (AFR), we found that the savings balance per AFR did not agree with the savings balance per the bank statement. We found that the school did not record the savings interest into the activity funds. In order to ensure that all cash is included on the AFR, interest received on the savings account should be added to the savings book balance.
- U During our test of receipts, we noted the deposit slips or receipts were not signed by two different people. To ensure proper segregation of duties, the deposit or receipt should be counted and signed by two different individuals.
- U During our test of disbursements, we noted some disbursements did not include supporting documentation. To ensure that the proper amount is paid, invoices, packing slips, etc. should support all disbursements.
- U During our test of the disbursement cycle, we noted some items received did not have documentation of receipt. We recommend that all items received have some documentation of receipt to ensure all items requested were received.
- U During our test of the disbursement cycle, we noted some purchase orders were not signed by the person requesting the merchandise. We recommend the person requesting merchandise always sign the purchase order to comply with the requirements of activity funds.

OHIO COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

● **Ohio County Middle School**

- U During our test of the disbursement cycle, we noted some items received did not have documentation of receipt. We recommend that all items received have some documentation of receipt to ensure all items requested were received.
- U During our test of the disbursement cycle, we noted some purchase orders were not signed by the person requesting the merchandise. We recommend the person requesting merchandise always sign the purchase order to comply with the requirements of activity funds.
- U During our test of receipts, we noted the deposit slips or receipts were not signed by two different people. To ensure proper segregation of duties, the deposit or receipt should be counted and signed by two different individuals.
- U During our test of disbursements, we noted some disbursements did not include supporting documentation. To ensure that the proper amount is paid, invoices, packing slips, etc. should support all disbursements.

● **Beaver Dam Elementary**

- U During our review of the Annual Financial Report (AFR), we noted that the Book Store Account has a negative balance. No activity fund should have a negative balance at year-end. We recommend that funds be transferred to activities that will have a negative balance at year-end to comply with the requirements of activity funds.
- U During our test of the disbursement cycle, we noted some items received did not have documentation of receipt. We recommend that all items received have some documentation of receipt to ensure all items requested were received.
- U During our test of the disbursement cycle, we noted some purchase orders were not signed by the person requesting the merchandise. We recommend the person requesting merchandise always sign the purchase order to comply with the requirements of activity funds.

OHIO COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

● **Fordsville Elementary**

- U During our test of receipts, we noted the deposit slips or receipts were not signed by two different people. To ensure proper segregation of duties, the deposit or receipt should be counted and signed by two different individuals.
- U During our test of the disbursement cycle, we noted some items received did not have documentation of receipt. We recommend that all items received have some documentation of receipt to ensure all items requested were received.
- U During our test of the disbursement cycle, we noted some purchase orders were not signed by the person requesting the merchandise. We recommend the person requesting merchandise always sign the purchase order to comply with the requirements of activity funds.

**OHIO COUNTY SCHOOL DISTRICT
MANAGEMENT RESPONSES COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2003**

Horse Branch Elementary

- Due to economic reasons Horse Branch Elementary does not deposit receipts daily. The travel distance is 24 miles and economics and time make it difficult to maintain the daily deposits. We keep the receipts locked in a safe until it is deposited on Thursday.

Southern Elementary

- The Principal and secretary will count and sign off on receipts and deposits slips.
- All disbursements will have supporting documentation such as invoices, and packing slips.
- All disbursements will have documentation of receipts to ensure all items have been received.
- The person signing the purchase orders will also be the person who requested the merchandise to ensure proper compliance of activity funds.

Wayland Elementary

- The school will make sure two different people sign or initial the deposit slips.
- The school will ensure that all items received will have documentation of receipt.

Western Elementary

- The principal will open and review the monthly bank statement.

Ohio County High School

- All interest will be included in monthly reports.
- There will be two school employees as well as bank personnel sign deposits.
- Invoices will be included with payment.
- All purchase orders will be signed by correct personnel.

Ohio County Middle School

- Receipts will be required from all vendors.
- All staff members will be required to sign purchase orders.
- All deposit tickets will be signed by two people.
- The school secretary will open all incoming boxes to check for packing slips to match invoices.

Beaver Dam Elementary

- The school will ensure there are adequate funds in all accounts.
- Documentation will be signed upon receiving items.
- Purchase orders will be signed.

Fordsville Elementary

- Deposit tickets will be counted and signed by two different individual.
- All items will have documentation of receipt.
- The person requesting merchandise will sign the purchase order.



Kentucky State Committee for School District Audits
Members of the Board of Education
Ohio County School District
Hartford, Kentucky

We have audited the financial statements of ***Ohio County School District*** (the "District") for the year ended June 30, 2003, and have issued our report thereon dated October 14, 2003. Professional standards require that we provide you with the following information related to our audit.

- **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, OMB Circular A-133 and Procedures for Auditing Local School Districts' Fiscal Records**

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

- **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in *Note 1* to the financial statements. As described in *Note 2* to the financial statements, the District changed accounting policies related to financial reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34 as of July 1, 2002. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you or transactions for which there is a lack of authoritative guidance or consensus.

- **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

- **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Our proposed audit adjustments, that were in our judgment either individually or in the aggregate, which had a significant effect on the District's financial reporting process were recorded by the District. We would be glad to discuss the nature of these adjustments with you.

- **Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

- **Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

- **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management of **Ohio County School District** and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC